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CONDEC CORPORATION ANNUAL REPORT FOR THE YEAR ENDED JULY 31, 1969

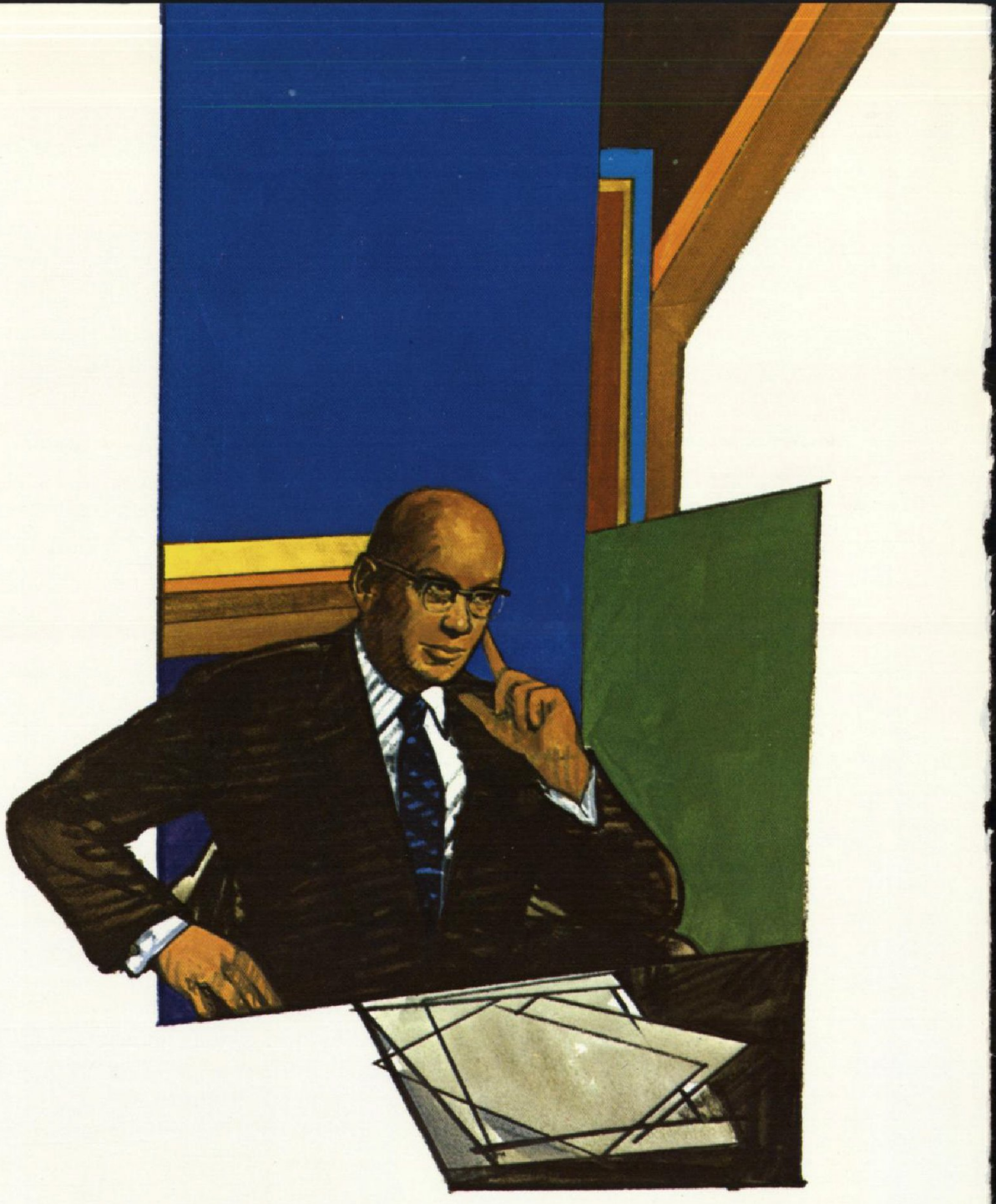
ON THE THRESHOLD OF THE 1970'S

As we stand on the threshold of the 1970's, man appears ready to embark on a new era of exploration and discovery. The landing of men on the moon in 1969 signified the opening of this era. And man's exploration promises to take many different forms in the next decade. Some of these in which Condec will play a role are portrayed at left by artist Arno Sternglass.

With the thrust of an Apollo craft as the focal point, we can see new developments already taking shape that promise opportunities for remarkable advancements in the years ahead. The John Hancock Center building, with its mix of commercial and residential space, symbolizes new approaches to meet the pent-up need for adequate housing. The supersonic aircraft depicts the rapid advances being made—and the problems to be solved —in transportation. Below that, expansion of the oil industry illustrates the increased demand for industrial control devices in petroleum refineries, chemical and processing industries. The dome-capped nuclear power plant emphasizes the growth in energy requirements—conventional and unconventional—to meet our boundless needs for more power. Advanced computer generations and new "miniputers" to collect, digest and display data are helping man master the information explosion.

Exploration of the oceans of the world is opening up new technological frontiers. Industrial automation—with robots performing assembly line tasks—will enrich productivity. All of these represent the excitement of tomorrow. All are challenges to be achieved and opportunities to contribute to improving man's life in this world. The center of the matrix in the illustration, as in our corporation, is people. People will bring about the advances of the 1970's and people will be responsible for Condec's success in the 1970's.

In the decade of the '60's just ended for Condec, our sales rose from $21 million to more than $100 million. We enter the 1970's with a tremendous increase in assets and opportunities to use those assets. The drive and ambition that produced the five-fold increase in sales in the 1960's will be focused on building Condec in the 1970's. We will try, in this report to our shareholders, to suggest Condec Corporation's role in meeting the challenges of change in the next decade.



FINANCIAL HIGHLIGHTS

	Years ended July 31 **1969**	1968
Net Sales and Other Income	**$106,438,000**	$118,457,000
Net Income	**3,177,000**	2,942,000
Net Income Per Share of Common Stock	**$1.45**	$1.70
Working Capital	**26,458,000**	18,440,000
Cash Flow	**5,337,000**	5,158,000
Stockholders' Equity	**$ 33,578,000**	$ 28,346,000
Average Common Shares Outstanding (including common share equivalents)	**1,846,211**	1,594,802

TO OUR SHAREHOLDERS

This annual report—with a theme of "On the Threshold of the 1970's"—appropriately follows a fiscal year in which Condec invested substantially to provide stimulus for our growth in the decade ahead. Financially, we established an especially strong posture by our sale during the year of $20 million in 5% convertible debentures and 100,000 shares of common stock.

Looking back to the past year's financial highlights, we note that fiscal 1969 was a profit plateau year for Condec. While absolute net earnings increased moderately, net income per common share—based on a larger number of shares outstanding—declined. We expect, however, that the programs put into effect in 1969 will enable us to attain increases in both sales and earnings for fiscal 1970.

Immediately before us is the build-up of Gama Goat production for our $132 million U.S. Army order, with heavy production scheduled for the second half of fiscal 1970 and for the ensuing two years. We have foregone participation in other government programs in order to insure maximum performance on the Gama Goat program, and although this resulted in a decrease in sales in fiscal year 1969, we believe it was the proper course of action. We expect Gama Goat to have a marked impact on earnings as soon as we start benefiting from the past 18 months' investment in tooling and expansion of facilities.

In the 1960's, the company changed from one in which our income came primarily from government sales to one in which less than 40% was from government. We will continue to be suppliers to the government and believe we can enlarge our position in this market since the expertise that we have developed enables us to efficiently and profitably service this customer with a broad variety of products.

Commercial operations contributed over 60% of our net income for fiscal 1969, with our flow control lines of Lunkenheimer and Hammond being the major elements. Each of these operations had higher operating profits than in the prior year, reflecting the benefits of investments in modern machinery, aggressive marketing, new product development and, most important, the acceptance of our brand names in the marketplace.

On the threshold of the '70's, Condec expects growth to come from three sources. First of all, we shall continue to exploit our established product lines and the strengths of the marketing capability on hand. Secondly, we look to a sound acquisition program to bring us compatible industrial companies which can be spurred to more rapid growth under the Condec aegis. And we shall support—with both management and money—unique operations that promise to give us a foothold in those emerging industries with striking growth potential for the next decade.

As an example, Condec has invested boldly in robotics, a new industry led by Unimation, Inc. Unimation's output, now running at an annual rate of approximately $5 million, is sold out for 10 months in advance. Recently, one customer ordered 64 of these $22,000 robots—a harbinger of the expanding market which Condec management has long forecast.

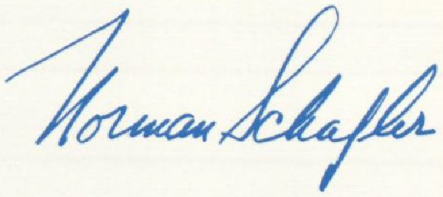
Our Varifab subsidiary is producing peripheral data input equipment which will offer new flexibility to both large and small users. One major national retail chain is now taking delivery on 550 of Varifab's 702 series data collection instruments, and pilot production has started on the 402 card punch.

In March, Condec formed a subsidiary named Energy Research Corporation to develop products for the direct conversion of heat and other forms of energy into electricity. A registration statement was filed with the Securities and Exchange Commission to offer 350,000 shares of common stock in the new corporation to the public. However, this offering has been delayed pending a more favorable securities market.

Condec concluded an agreement that will enable us to acquire Tubotron, Inc. Tubotron manufactures stainless steel water piping for the building industry at a cost that permits the company to undersell copper tube. The company, if it is acquired, will contribute to Condec both as an emerging technology and as an addition to our building product lines.

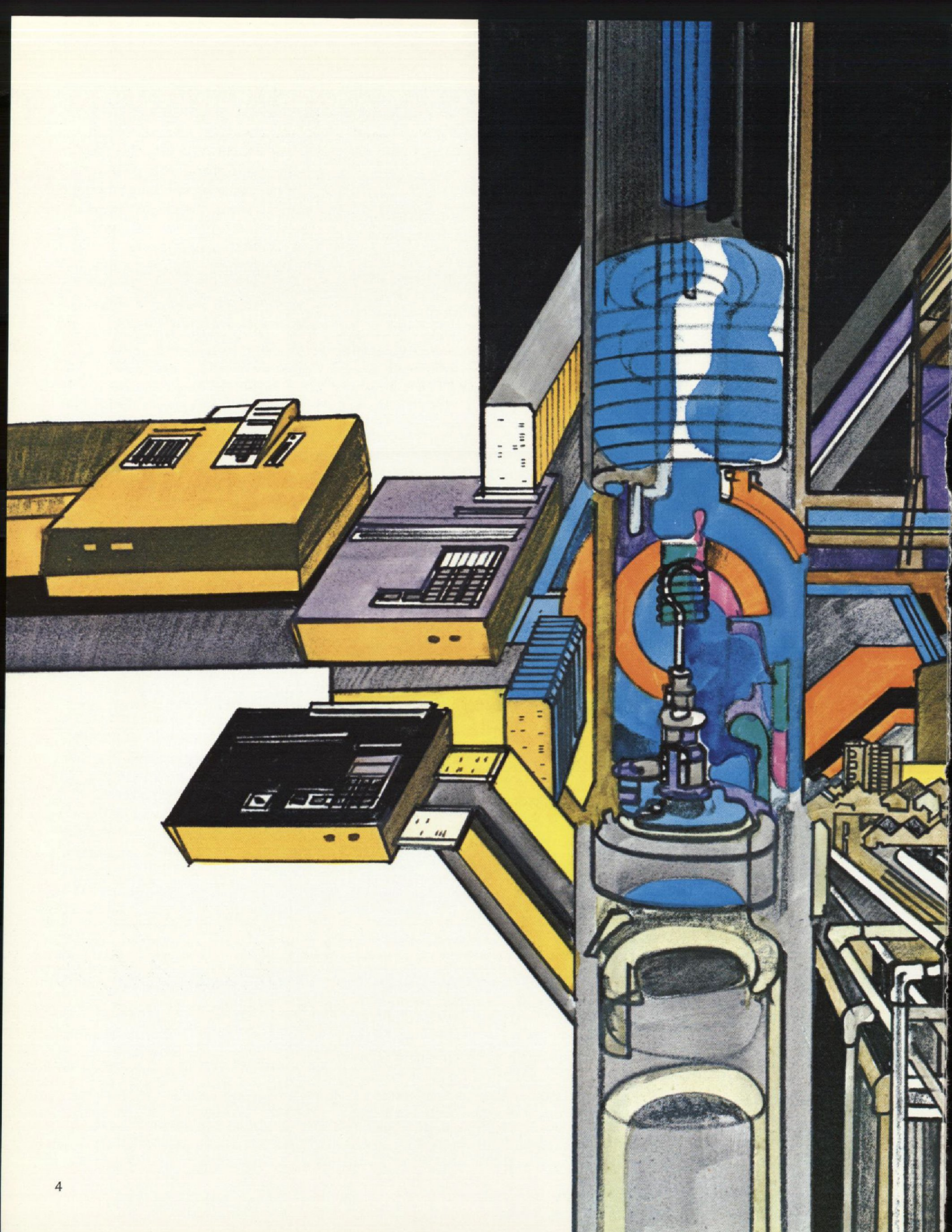
The current Condec corporate structure is one that nicely straddles present and future opportunities. While we cannot forecast the state of the national economy in the evidently uneasy near term future, we do have confidence in our ability to forge ahead of the national norm. On behalf of our officers and directors, we wish to express our appreciation for the continued confidence shown by our stockholders and thank our 4,000 employees for their contribution in making 1969 an important year in Condec's continuing progress.

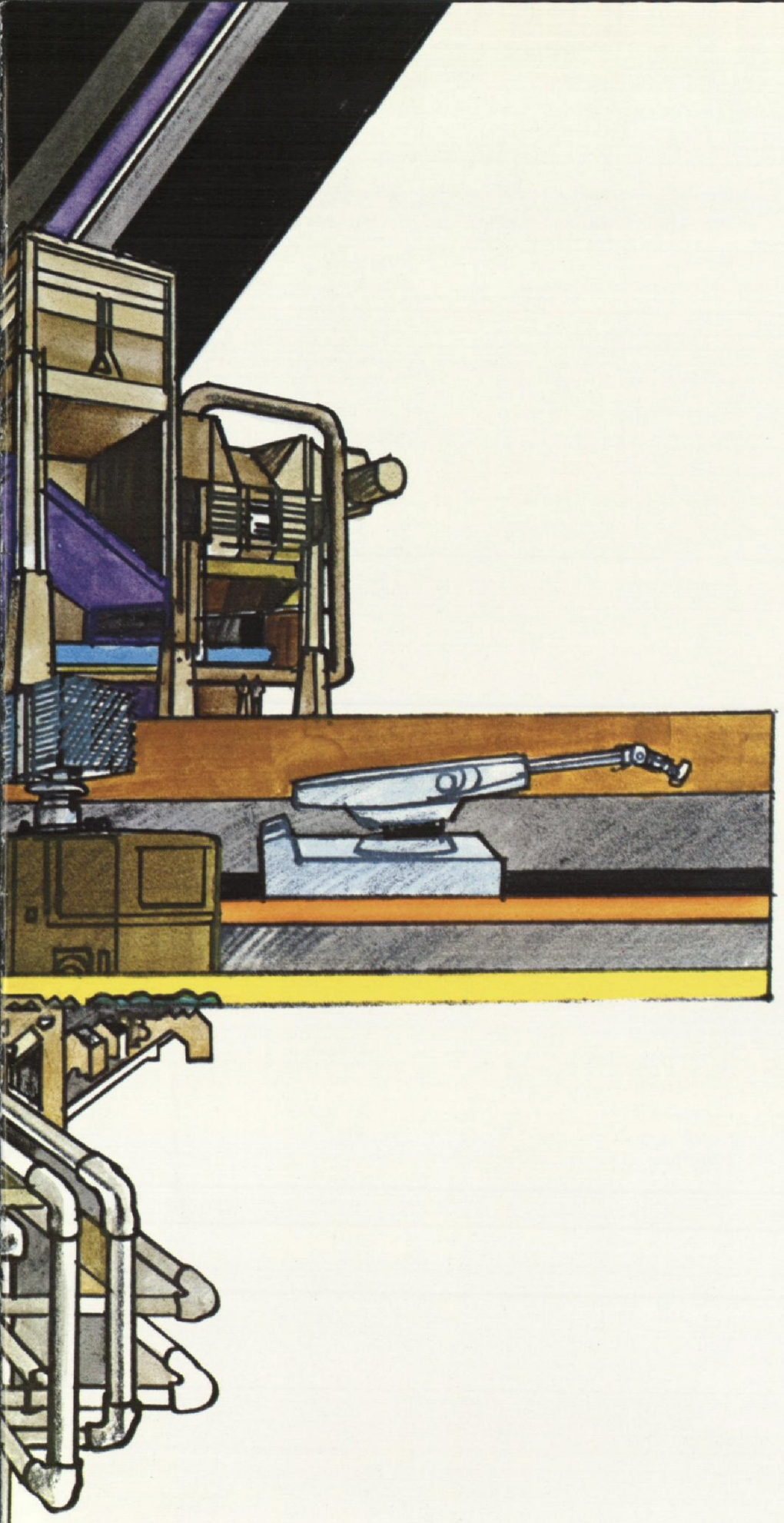
Sincerely,



Norman Schafler
President

October 14, 1969





EMERGING INDUSTRIES

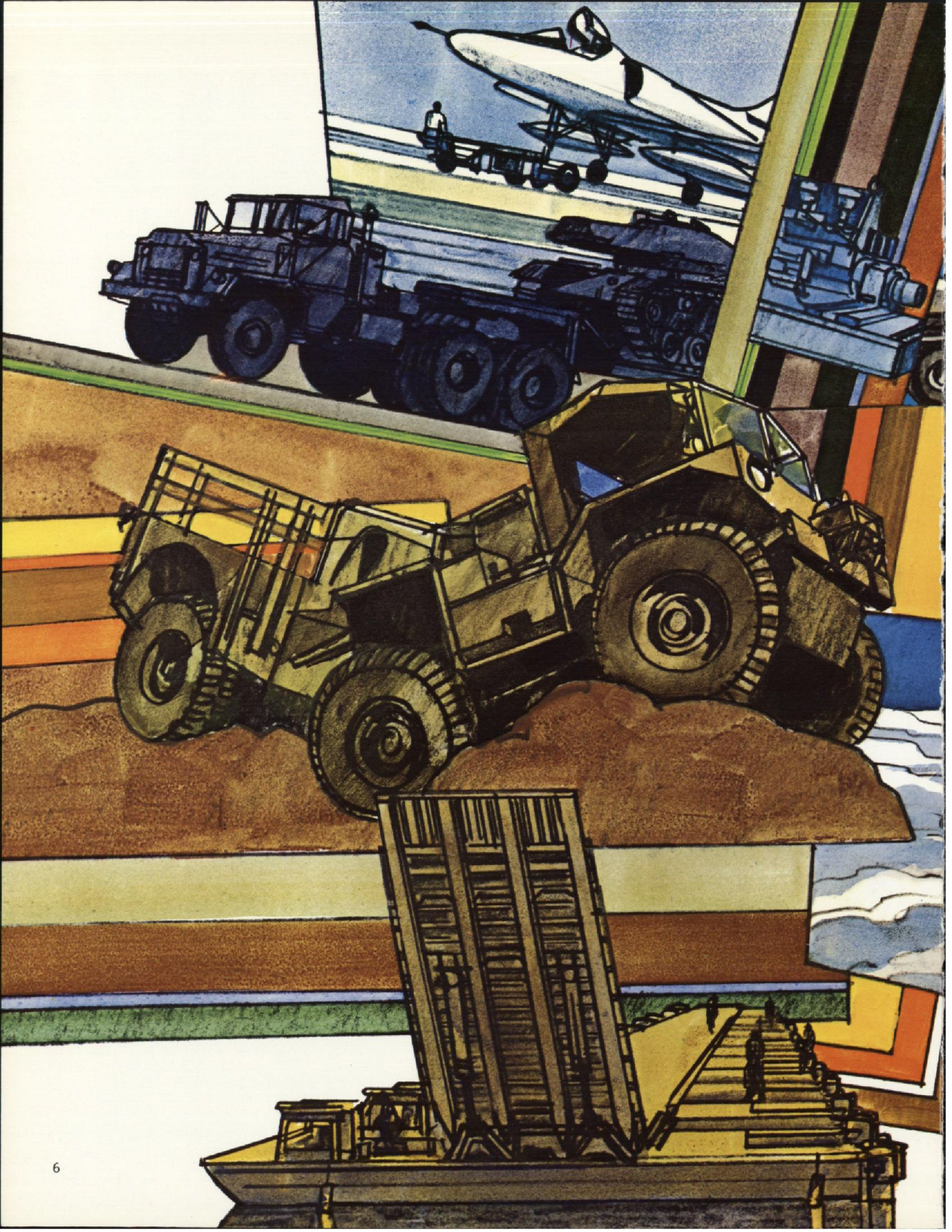
At Condec, management philosophy is to invest in technically based emerging industries with proprietory products or processes that promise unusual growth. One example is Varifab which produces data recorders and card punch machines.

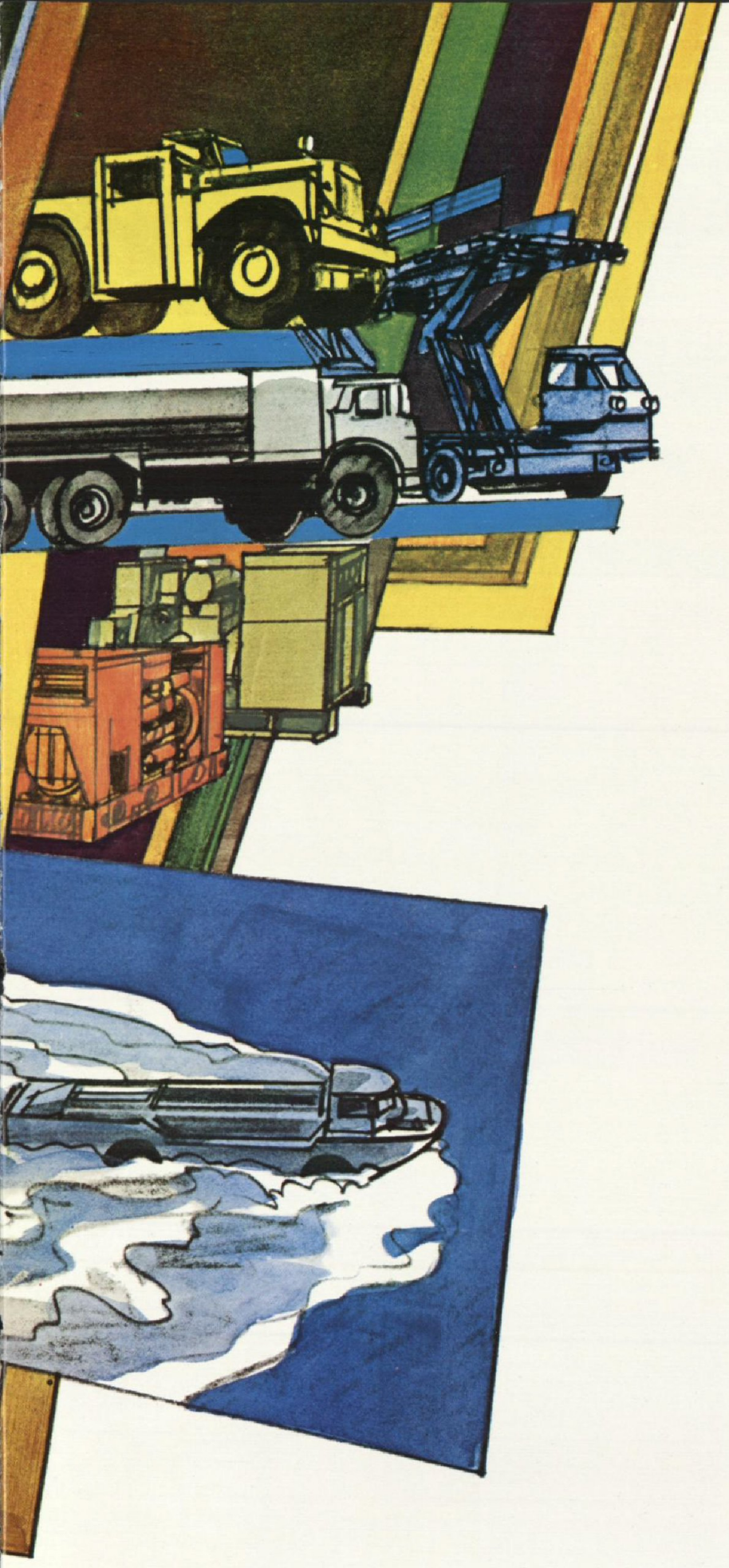
Varifab's line of "miniputers" fills a need for error-free data collection at the source. Varifab is now producing 550 of its new Model 702 units for Robert Hall Clothes. This in-store unit features solid state integrated circuit logic systems which won't accept erroneous or incomplete data. Varifab also recently introduced its 401 and 402 Vari-Punch which punch and print data on tab cards.

Two other examples of emerging industries are robotics, described on pages 14 and 15, and thermionic conversion. Thermionics is the direct conversion of heat from fossil fuels into electricity without moving parts. If technical problems can be solved, a thermionic generator might provide relatively quiet electricity generation and complete fuel combusition with minimal air pollution and increased reliability.

With its unique ability to produce TiKrome Stainless® steel water piping at a price substantially lower than that of copper, Tubotron also qualifies as an important emerging industry. Stainless steel tubing offers the building industry excellent corrosion resistance and durability. Tubotron started aggressively marketing TiKrome water pipe within the last six months and is now moving toward a production rate of one million feet of tube per month.

The building industry uses hundreds of millions of dollars of copper water pipe a year, and Tubotron's stainless steel water pipe could obtain a significant share of this market.





GOVERNMENT BUSINESS

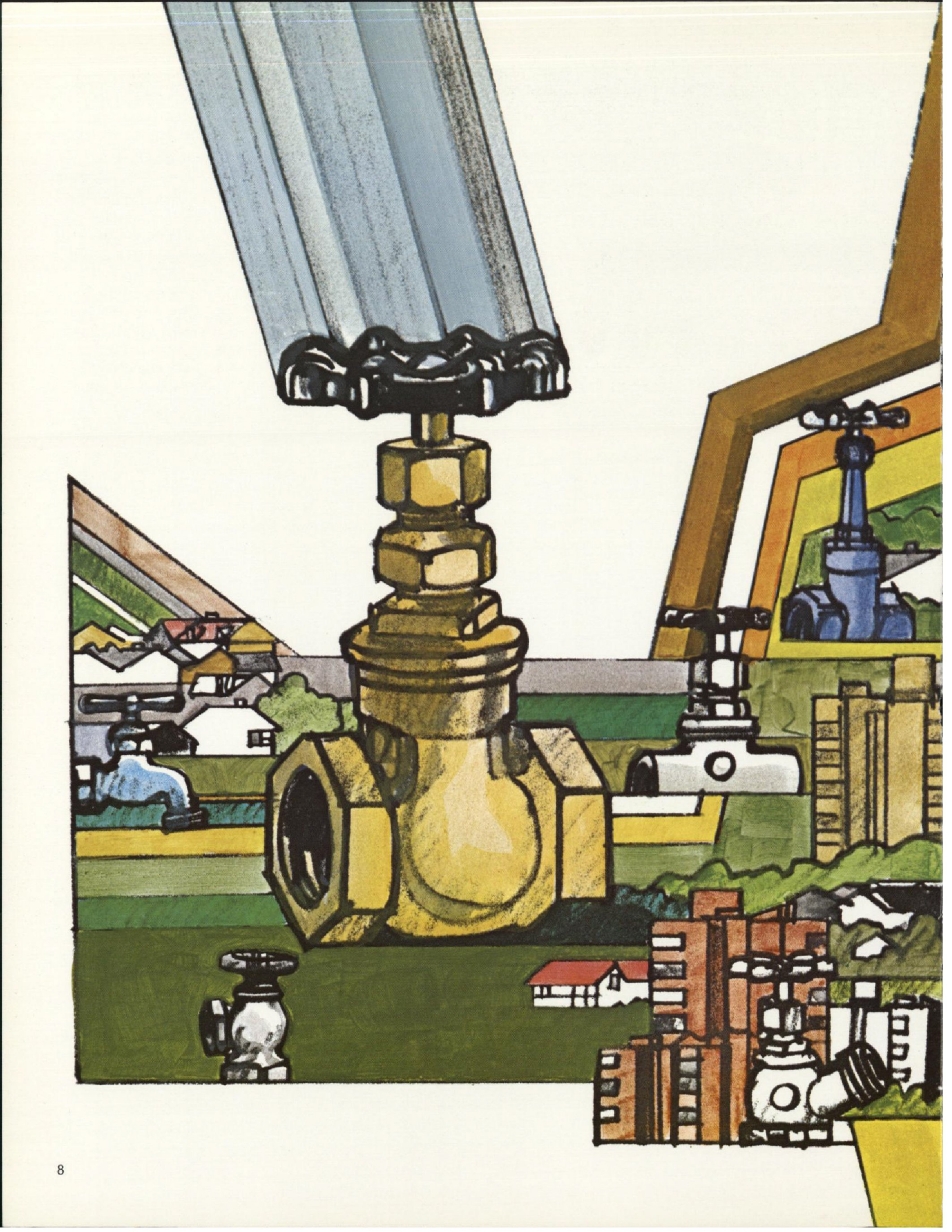
Condec's Consolidated Diesel Electric Company is the nation's most versatile manufacturer of special purpose vehicles for the government, having produced more than 40 different types in the last five years.

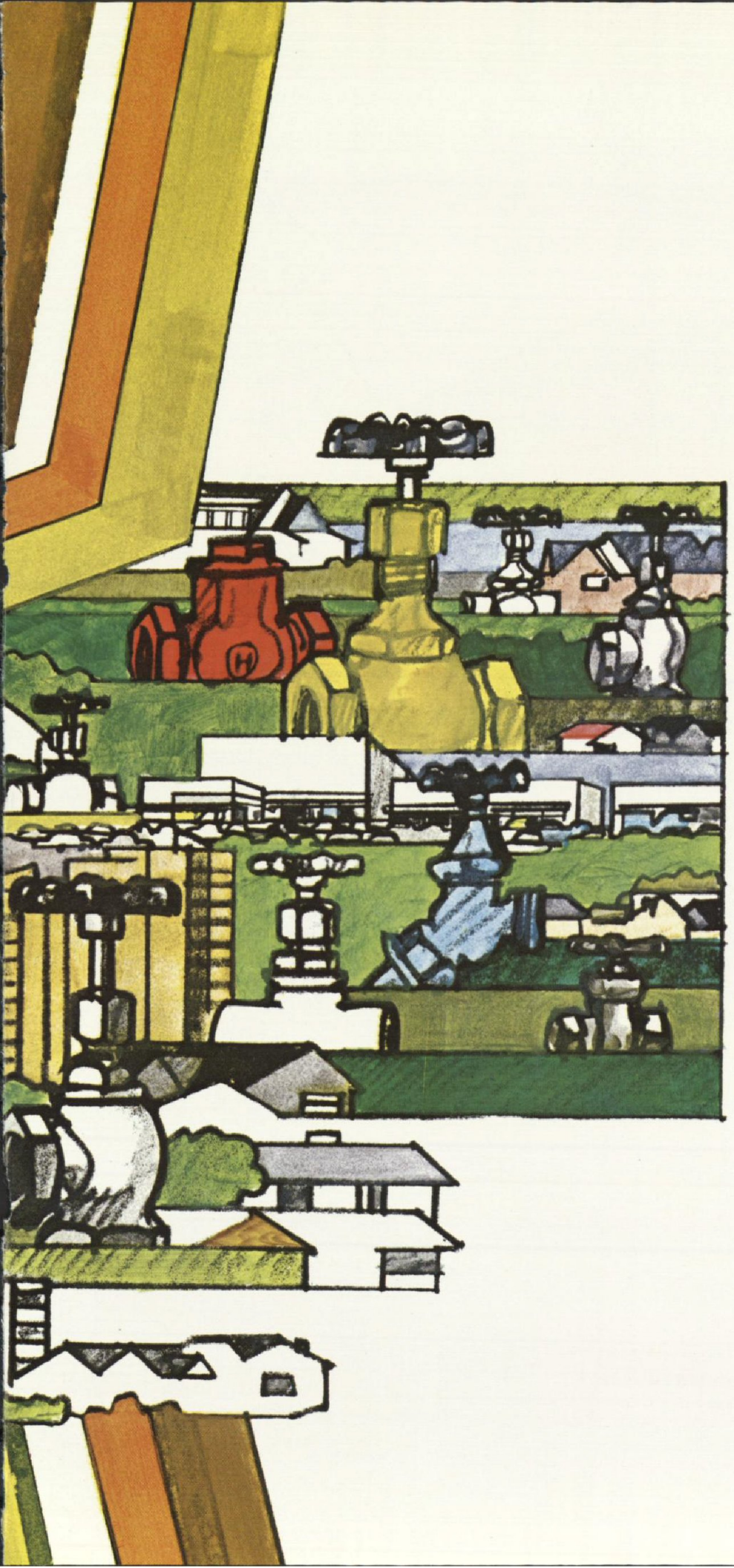
With mobility and equipment specialization playing an ever increasing role in all phases of military operation, Condec's unique ability to design complex equipment, and to respond rapidly with a broadly diversified and integrated production capability, provides us with many important advantages as a government supplier.

Condec is the government's largest supplier of amphibious vehicles. In addition to Gama Goat, these have included the Larc V craft which can carry up to five tons on land or water, and the Mobile Floating Assault Bridge-Ferry system for movement of equipment and personnel across small bodies of water. Other special vehicles include a 10-ton truck tractor and a jet refueling truck.

The Gama Goat rough terrain vehicle now being produced for the U.S. Army under a $132 million contract is a prime example of our capabilities. This lightweight, rugged, 1¼-ton vehicle can swim rivers, be airlifted by helicopter and dropped by parachute. Its articulation features provide ability to drive over rough terrain that was unpassable with prior vehicles. Gama Goat represents a new generation of special vehicles designed to improve the mobility of the nation's ground forces.

Condec's advanced capabilities in aluminum welding and fabricating helped gain the Gama Goat contract. With Gama Goat, Condec has moved into the front rank of mass vehicle producers for the government. Production of Gama Goat will reach more than 500 vehicles per month by March, 1970, and will continue at this level for another two years.





HOUSING AND COMMERCIAL CONSTRUCTION

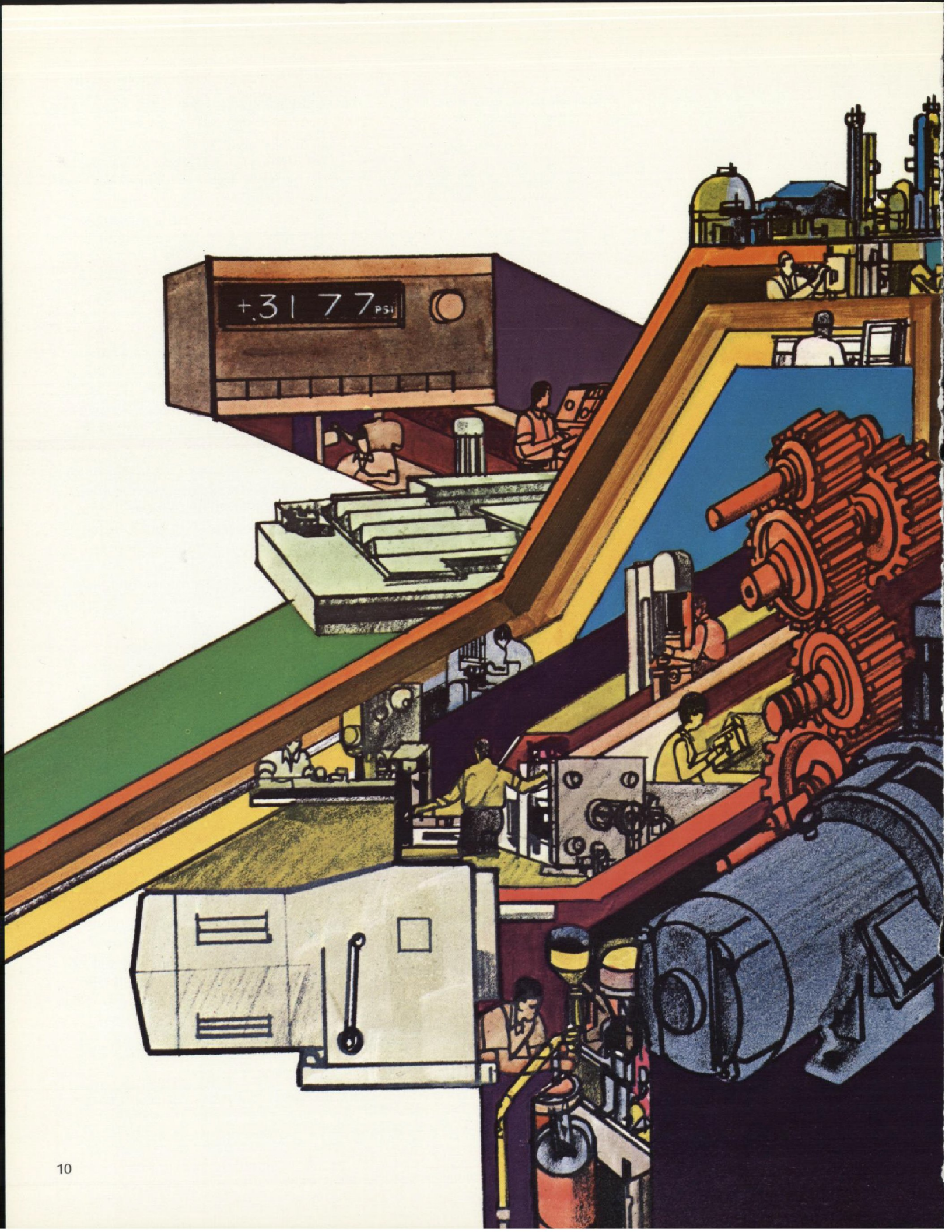
While housing starts were stalled by the tight money squeeze of 1969, the demand for housing has been accelerating. Several factors are fueling this demand, including an expanding population, rising affluence and the growth in young family formations. The news media has fully reported the urgent need for new housing to be built at a rate substantially in excess of our present pace. U.S. News & World Report, for example, predicted that a minimum average of two million living units per year must be built in the 1970's to meet these needs. This contrasts with the present rate of under 1.3 million per year.

Condec's Hammond Valve subsidiary is ready to capitalize on a housing spurt. With its solid distributor organization and a national network of Servicecenter® warehouse and distribution centers, Hammond Valve will be a prime beneficiary of a building upswing.

Hammond is one of the nation's leading manufacturers of quality valves for the residential market. Most of these are low pressure—up to 125 pounds—and are used primarily in household plumbing, heating and air conditioning systems. During the year, Hammond expanded its line to include butterfly valves, as well as its basic industrial bronze and iron valve line.

Hammond's markets, in addition to private homes, include multiple dwellings, garden and high-rise apartments, schools, stores and manufacturing plants. Since acquired by Condec a decade ago, Hammond's operation has tripled in size.

Lunkenheimer's marketing organization and products, oriented to industrial users, complement those of Hammond.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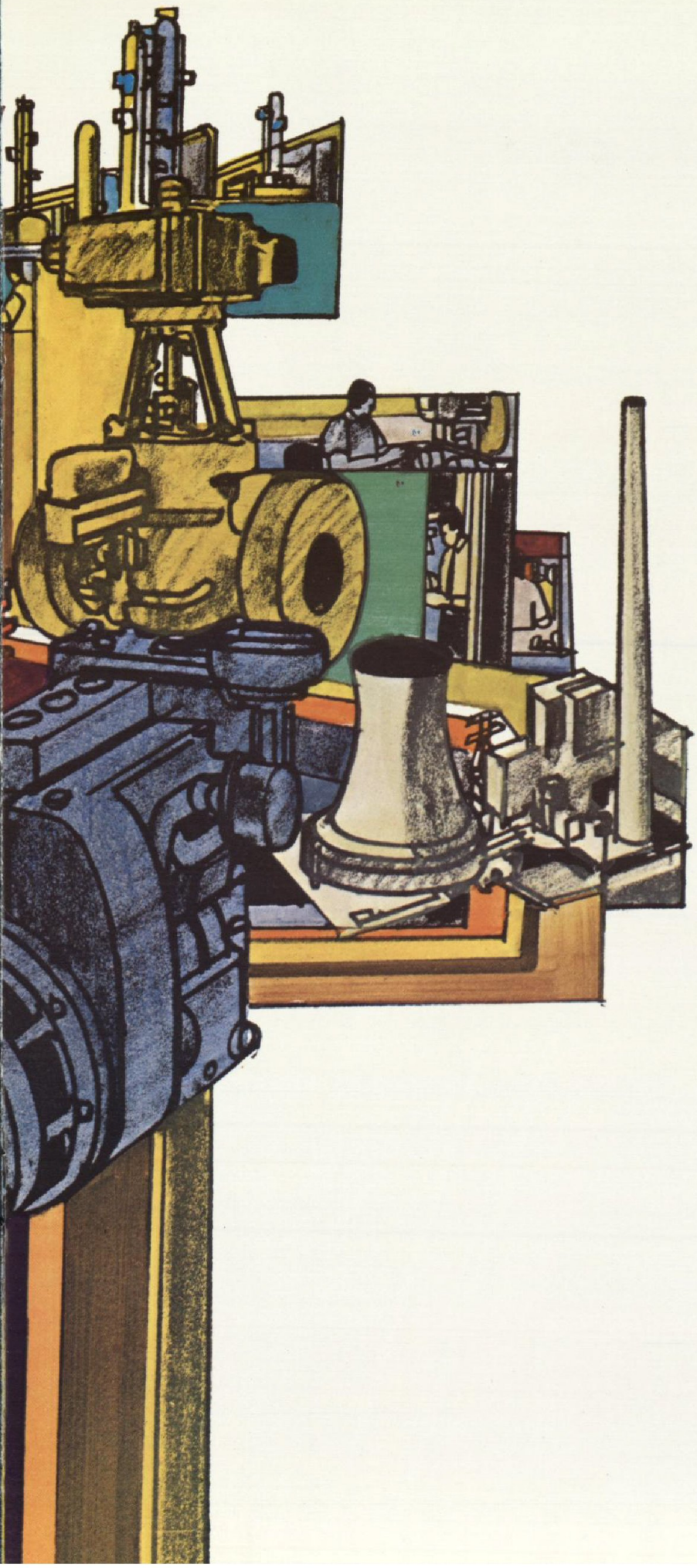


INDUSTRIAL PRODUCTS

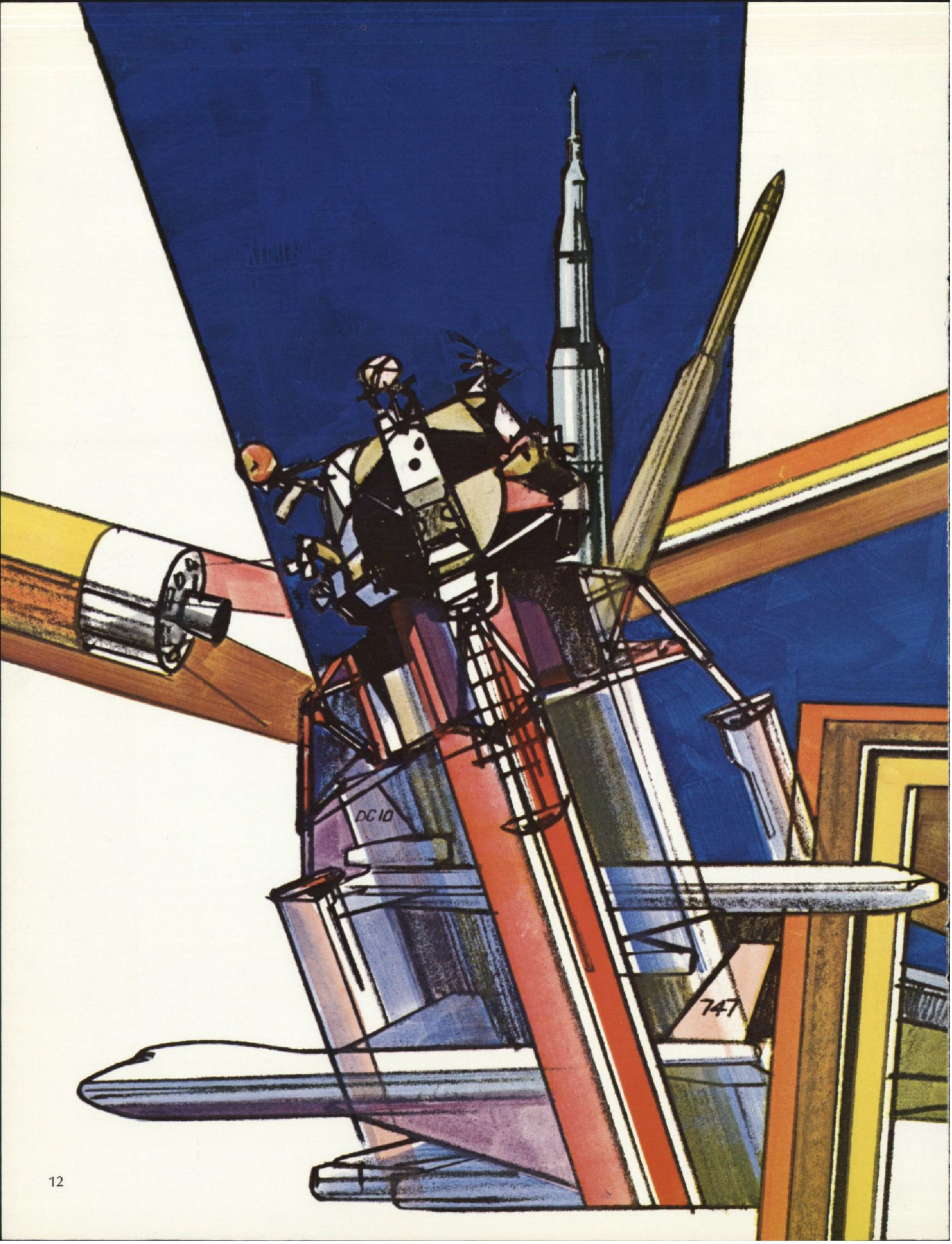
Condec designs, manufactures and sells a wide range of products for a growing number of specialized markets.

For example, Lunkenheimer developed a steam generator hydrovalve that blanks off a turbine for maintenance so that the whole operation does not have to be shut down, thus saving thousands of dollars. The largest hydrovalve—46 inches in diameter and 15,000 lbs.—has been installed by the Kentucky Power Company. Lunkenheimer can call upon an experienced engineering team and an outstanding large valve machining facility to solve customers' flow control problems.

Lunkenheimer recently established a new Power Controls Division to expand sales in the processing industries. Electric and pneumatic remote actuator valves marketed by this group are linked to a central control panel, enabling one man to handle a large, dispersed processing installation.

As part of a long-range plan for expansion into the industrial instrumentation and control field, Consolidated Controls Corporation set up a separate sales organization to handle industrial products. Two of these products—pressure switches and digital pressure and temperature indicators—were adapted from CCC's military aerospace products. The digital instrumentation devices display temperature, pressure and other readings in numbers—eliminating the problem of misreading a needle on a dial.

Lima continues to expand its product line of special power transmission products. New manufacturing equipment, including Lima's third numerical controlled machine tool and gear making facility, was added during the year to support this activity. Lima generators with patented excitation systems showed increased sales this year and sales should continue to grow in the future as larger sizes are added to the line.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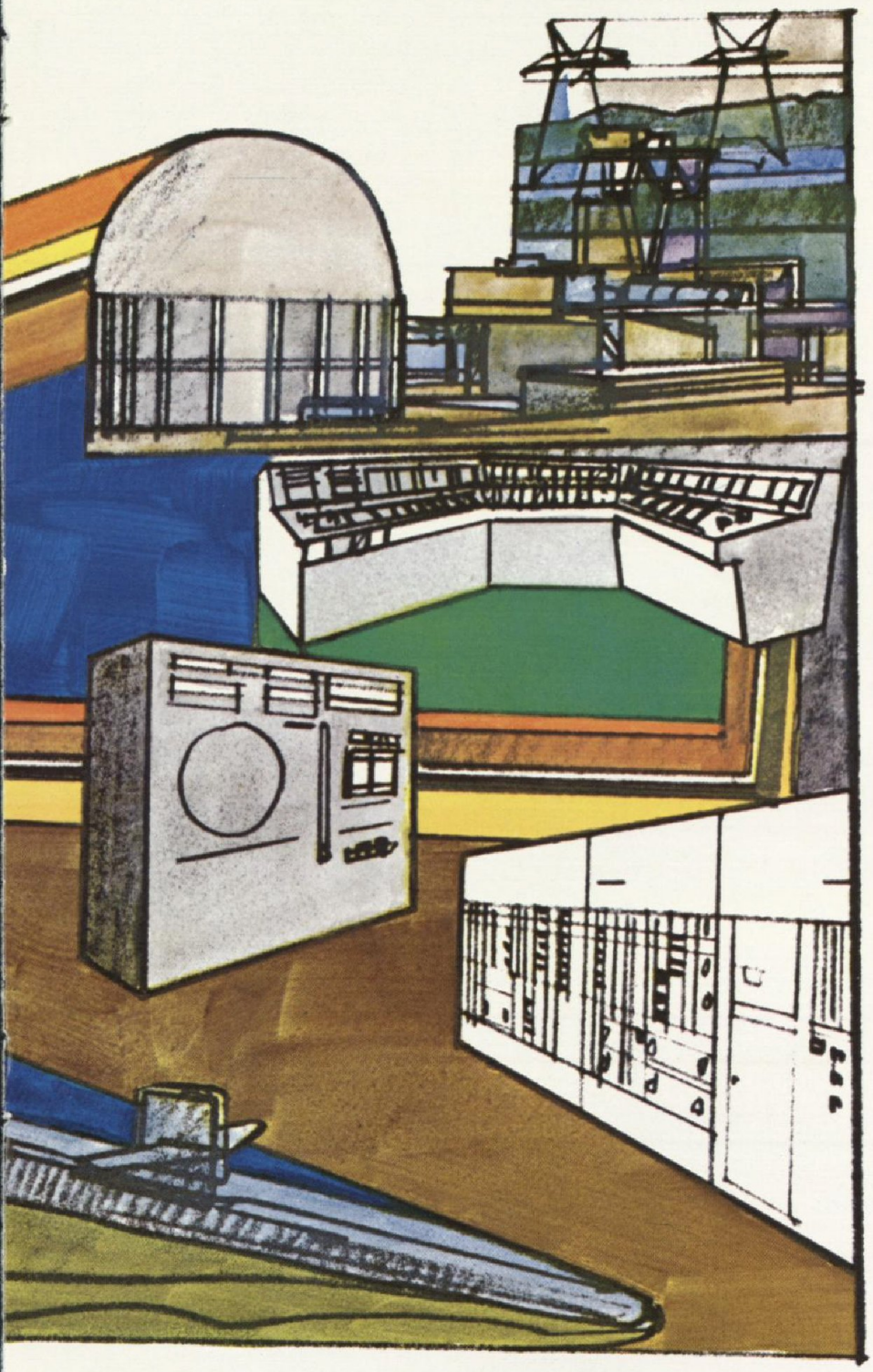


AEROSPACE PRODUCTS

Man's giant leap into space and the heralded arrival of a new generation of jumbo jet aircraft in the 1970's has created a critical demand for new controls and instrumentation.

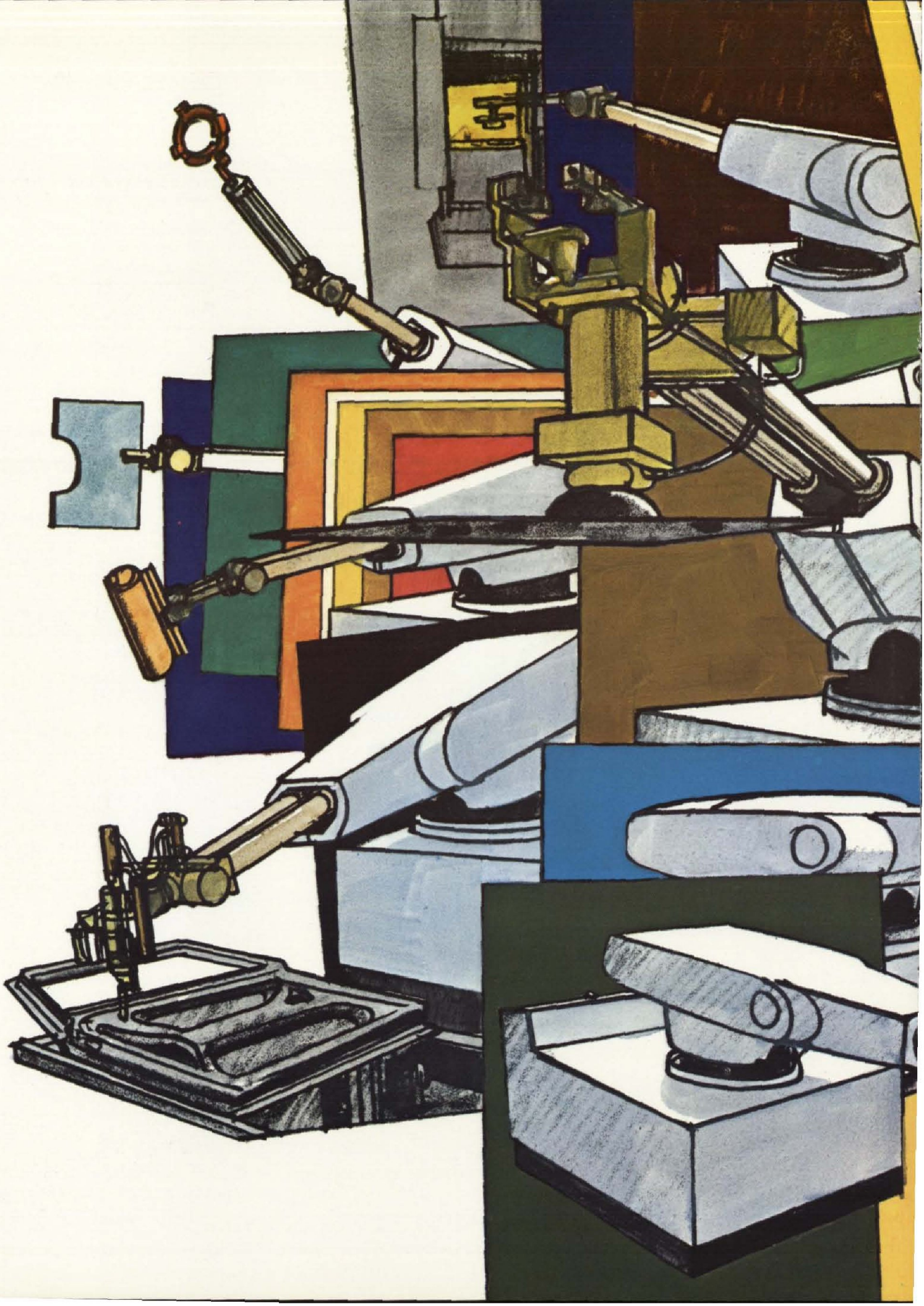
Consolidated Controls Corporation contributes to filling this need with an array of devices now aboard virtually all the major aerospace programs. CCC is the largest supplier of aerospace pressure switches. Other products, such as cryogenic valves, electric actuators and transducers, are aboard our nation's space and missile programs, including the Apollo moon vehicle and the Minute Man and Saturn rockets.

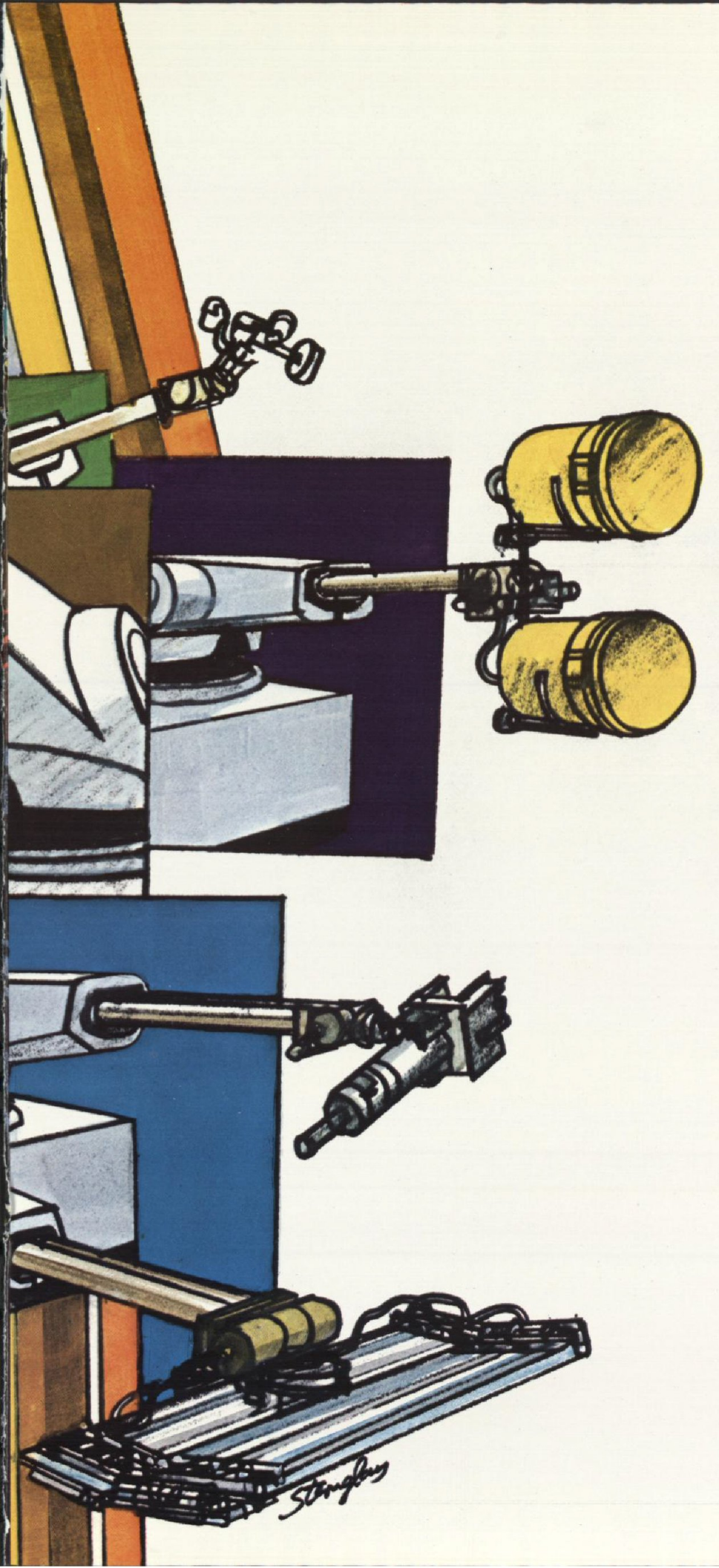
We will supply pressure switches and other components for all three new commercial jumbo jet programs—the Lockheed L1011 Air Bus, The Boeing 747 and the McDonnell-Douglas DC-10. These CCC commercial aerospace contracts involve long-term projects—up to eight years—and indicate a deepening concentration in the commercial market.

NUCLEAR PRODUCTS

Condec continues to increase its participation in the nuclear field. We have supplied various instrumentation and controls for nuclear submarines and surface vessels, as well as safety controls for the Army's floating barge reactor. Currently, we are manufacturing a new instrumentation and safety system for the Navy's reactor located at McMurdo Sound, Antarctica.

Lunkenheimer, joining CCC in the expanding nuclear market, can produce extremely high tolerance, high pressure valves—made from stainless steel or a variety of exotic metals—for nuclear flow controls. We believe the world-wide nuclear power plant market will be a significant source of business in the future.





UNIMATION

The Unimate robot, originally developed by Condec, made rapid strides during fiscal 1969. These industrial robots are manufactured and marketed by Unimation, Inc., a Pullman Incorporated subsidiary in which Condec owns a substantial minority interest.

The Unimate robot can work in a broad range of repetitive, hot and often hazardous operations—jobs that are unusually taxing for humans. Extremely versatile, the robots are running die-casting, forging, upsetting and punch press machines, loading and unloading conveyors, handling hot glass and welding.

What distinguishes Unimate from special purpose automatic machinery—built for a single use—is the robot's digital computer memory that allows it to learn many different operations. Thus it does not become obsolete as production processes in a factory change. So far, Unimates have accumulated more than 400,000 hours on the job in industry.

The new "Model 2000" robot now is being manufactured on a production line basis. To meet a hefty order backlog and satisfy growing product demand, Unimation, Inc. will double its factory space by the spring of 1970.

A harbinger of the momentum expected in the '70's is an order for 64 of the 2000 series machines from a major automobile manufacturer. These machines will be working in an auto assembly plant.

Unimate robots are also heading for Japan. In fiscal 1969, Unimation, Inc. signed a licensing agreement with Kawasaki of Japan for marketing and manufacture of Unimates in the Orient.

FINANCIAL REVIEW

For the fiscal year ended July 31, 1969, Condec Corporation achieved net income of $3,177,000, an increase over last year's figure of $2,942,000, while net sales and other income decreased to $106,438,000 from $118,457,000. Net income per common share, including common share equivalents, amounted to $1.45, compared to $1.70 in fiscal 1968.

Earnings per share of common stock this year were based on 1,846,211 average shares including common share equivalents outstanding, compared to 1,594,802 last year. Preferred stock dividends increased to $497,000, or $.27 per common share, from $237,000, or $.15 per common share in fiscal 1968. A Federal income tax surcharge of $282,000, or $.15 per share, was applied against 1969 earnings, compared with $121,000, or $.08 per share in 1968.

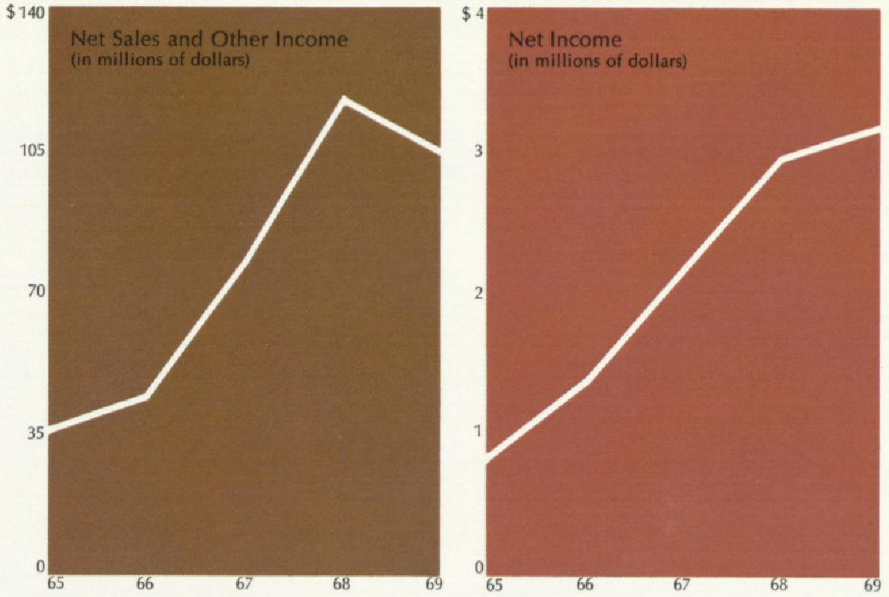
Among other financial highlights:

- In September, 1968, we received proceeds of $22,425,000 from the sale of 5% Convertible Subordinated Debentures and 100,000 shares of common stock.
- Additions to property, plant and equipment continued at a high level in 1969—$3,352,000—exceeding depreciation by $1,433,000.
- Working capital increased by $8,018,000 to $26,458,000. The ratio of current assets to current liabilities was more than 2 to 1.
- During the year, we expanded our borrowing ability by increasing our bank line of revolving credit from $12,000,000 to $20,000,000. At year end, we used only $7,500,000 and therefore had $12,500,000 additional borrowing still available.
- Stockholders' equity increased by $5,232,000 to $33,578,000.
- Return on average common stockholders' equity was 13.4%. This was below prior years and resulted from the fact that while earnings increased only slightly, there was a large increase in common stockholders' equity caused by the sale of additional common stock and the conversion of convertible securities. We can anticipate, however, that the additional stockholders' equity will provide a basis for the continuance of expansion and acquisition plans.

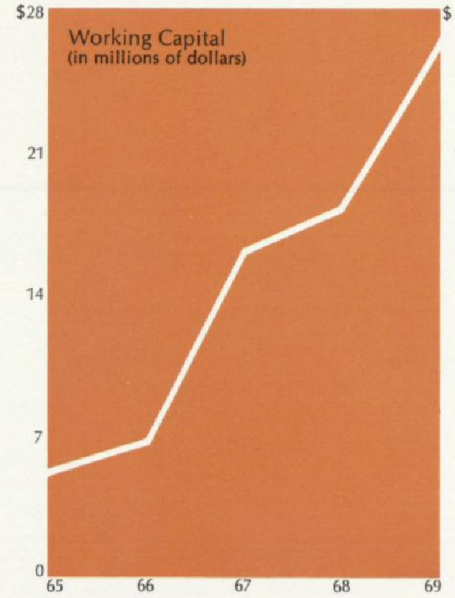
In summary, our company is in a strong financial position and is well able to capitalize on the growth opportunities ahead.

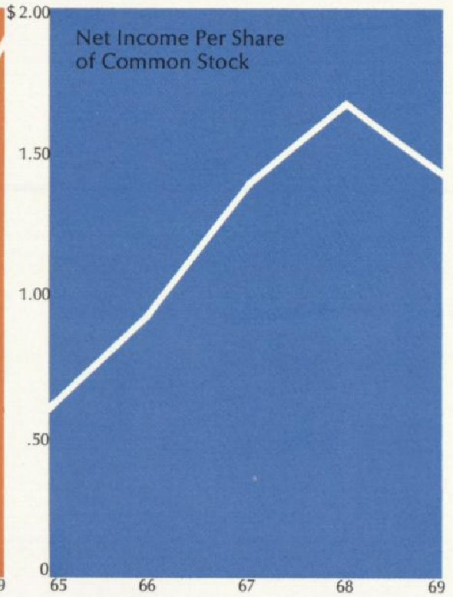
FIVE-YEAR STATISTICAL REVIEW

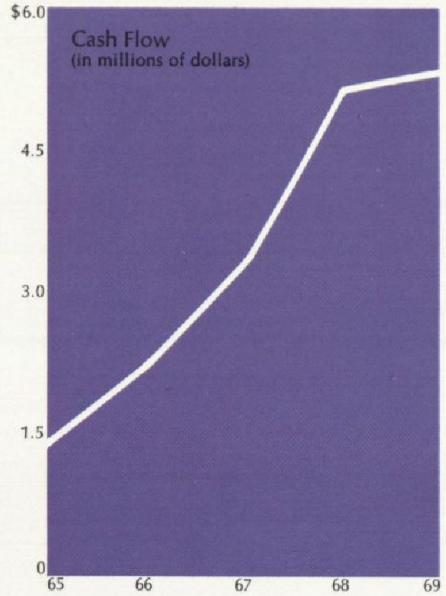
	1969	1968	1967	1966	1965
Results for the fiscal years ended July 31:					
Net sales and other income	**$106,438,000**	$118,457,000	$ 78,186,000	$45,847,000	$37,435,000
Income before federal income taxes and minority interests	**6,345,000**	7,155,000	3,993,000	2,327,000	1,558,000
Net income	**3,177,000**	2,942,000	2,158,000	1,369,000	841,000
Net income per share of common stock	**1.45**	1.70	1.41	.95	.63
Additions to property, plant and equipment	**3,352,000**	3,282,000	8,538,000	3,294,000	1,058,000
Return on average common stockholders' equity	**13.4%**	20.3%	22.1%	18.5%	15.2%
Financial position at July 31:					
Working capital	**26,458,000**	18,440,000	16,435,000	6,990,000	5,537,000
Net investment in property, plant and equipment	**15,324,000**	13,890,000	12,770,000	5,485,000	2,922,000
Cash flow	**5,337,000**	5,158,000	3,353,000	2,228,000	1,460,000
Stockholders' equity	**33,578,000**	28,346,000	13,910,000	9,400,000	5,981,000
Backlog	**$168,266,000**	$195,900,000	$100,700,000	$80,500,000	$50,500,000
Average Common Shares Outstanding (*including common share equivalents)	**1,846,211***	1,594,802*	1,460,965	1,374,397	1,327,614

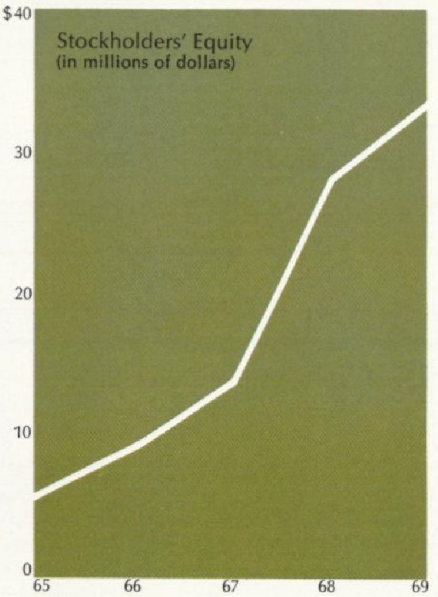

Net Sales and Other Income
(in millions of dollars)
$140
105
70
35
0
65
66
67
68
69

Net Income
(in millions of dollars)
$4
3
2
1
0
65
66
67
68
69


Working Capital
(in millions of dollars)
$28
21
14
7
0
65
66
67
68
69


Net Income Per Share
of Common Stock
$2.00
1.50
1.00
.50
0
65
66
67
68
69


Cash Flow
(in millions of dollars)
$6.0
4.5
3.0
1.5
0
65
66
67
68
69


Stockholders' Equity
(in millions of dollars)
$40
30
20
10
0
65
66
67
68
69

CONSOLIDATED BALANCE SHEET

Assets	July 31 1969	1968
Current assets:		
Cash and short term securities	**$ 7,326,000**	$ 4,847,000
Accounts receivable:		
U.S. government	**10,924,000**	10,205,000
Other	**6,934,000**	5,862,000
Inventories, at lower of cost (1969—$4,227,000; 1968—$4,540,000 on LIFO) or market, less progress payments (1969—$8,446,000; 1968—$7,711,000)	**22,019,000**	21,177,000
Prepaid expenses	**797,000**	656,000
Total current assets	**48,000,000**	42,747,000
Property, plant and equipment, at cost (Note 7)	**25,328,000**	22,042,000
Less accumulated depreciation	**10,004,000**	8,152,000
Net property, plant and equipment	**15,324,000**	13,890,000
Investments at cost, and other receivables:		
Unimation, Inc. (Note 1)	**5,084,000**	4,528,000
Other	**3,231,000**	307,000
Excess of cost of investment over equity in net assets of subsidiaries at dates of acquisition	**12,373,000**	12,035,000
Unamortized debt expense and other deferred charges	**1,446,000**	906,000
	$85,458,000	$74,413,000

Liabilities and Stockholders' Equity	July 31 1969	1968
Current liabilities:		
Notes payable to banks (Note 2)	**$ 8,679,000**	$10,315,000
Accounts payable and accrued expenses	**10,053,000**	11,819,000
Federal income taxes	**955,000**	1,152,000
Current maturities of long-term debt (Note 3)	**635,000**	1,021,000
Other liabilities (Note 4)	**1,220,000**	—
Total current liabilities	**21,542,000**	24,307,000
Long-term debt, less current maturities (Note 3)	**27,641,000**	18,464,000
Deferred income (Note 1)	**2,324,000**	2,324,000
Deferred compensation and other	**249,000**	879,000
Equity of minority stockholders in consolidated subsidiaries	**124,000**	93,000
Commitments and contingencies (Note 10)		
Stockholders' equity (Notes 3, 5, & 6):		
Preferred stock	**9,648,000**	12,266,000
Common stock	**182,000**	165,000
Capital surplus	**10,437,000**	5,284,000
Retained earnings	**13,311,000**	10,631,000
Total stockholders' equity	**33,578,000**	28,346,000
	$85,458,000	$74,413,000

See accompanying notes

CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS

	Years ended July 31	
	1969	1968
Net sales and other income	**$106,438,000**	$118,457,000
Costs and expenses:		
Cost of sales	**84,171,000**	95,905,000
Selling, general and administrative expense	**13,978,000**	13,249,000
Interest expense	**1,944,000**	2,148,000
	100,093,000	111,302,000
Income before provision for federal income taxes and minority interests	**6,345,000**	7,155,000
Provision for federal income taxes	**3,160,000**	3,514,000
Income before minority interests	**3,185,000**	3,641,000
Minority interests in earnings of subsidiaries	**8,000**	699,000
Net income	**3,177,000**	2,942,000
Retained earnings at beginning of year	**10,631,000**	7,926,000
Dividends on preferred stocks	**(497,000)**	(237,000)
Retained earnings at end of year (Note 6)	**$ 13,311,000**	$ 10,631,000
Earnings per share of common stock (Note 9):		
Primary	**$1.45**	$1.70
Fully diluted	**$1.25**	$1.60

See accompanying notes

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

	Years ended July 31	
	1969	1968
Source of Funds:		
Operations:		
Net Income	**$ 3,177,000**	$ 2,942,000
Depreciation	**1,906,000**	1,927,000
Other non-cash charges	**254,000**	289,000
	5,337,000	5,158,000
Long term borrowings—net	**9,622,000**	1,059,000
Sale of 100,000 common shares	**2,875,000**	—
Issue of preferred stock	**—**	9,054,000
Other	**136,000**	67,000
	17,970,000	15,338,000
Application of funds:		
Additions to property, plant and equipment—net of disposals	**3,352,000**	3,047,000
Reduction of minority interest—The Lunkenheimer Company	**—**	5,100,000
Excess of cost of investment over net assets of acquired companies	**1,191,000**	3,650,000
Increase in investments and other assets	**4,135,000**	1,225,000
Purchases, redemptions and dividends on preferred stock	**1,274,000**	311,000
	9,952,000	13,333,000
Increase in Working Capital	**$ 8,018,000**	$ 2,005,000

CONSOLIDATED STATEMENT OF CAPITAL SURPLUS

	Years ended July 31	
	1969	**1968**
Balance at beginning of year	**$ 5,284,000**	$2,549,000
Capital in excess of par value of common stock issued upon:		
Sale of 100,000 common shares	**2,865,000**	—
Conversion of convertible debentures (Note 3)	**442,000**	2,229,000
Conversion of preferred stock (Note 5)	**1,883,000**	—
Exercise of common stock options and warrants (Note 5)	**44,000**	113,000
Purchase of Varifab, Inc.	**—**	374,000
Other	**(81,000)**	19,000
Balance at end of year	**$10,437,000**	$5,284,000

See accompanying notes

NOTES TO FINANCIAL STATEMENTS

1. Investment, at cost, and receivable from Unimation, Inc. and related deferred income

In 1962, Unimation, Inc. purchased certain rights from a Condec subsidiary for $3,000,000 which is presently evidenced by 4½% installment notes with payments due to begin in 1977. The income arising from the sale has been deferred and will be reported on the installment basis as payments, if any, are received. A Condec subsidiary has invested in Unimation's preferred stock, which upon completion of certain conditions will be convertible into common stock between January 1, 1970 and June 30, 1971. Upon such conversions, the subsidiary's ownership of Unimation common stock would be 44½%.

2. Revolving credit agreement

Condec has an unsecured revolving line of credit from a group of banks in the amount of $20,000,000 of which $7,500,000 was borrowed at July 31, 1969.

3. Long-term debt

At July 31, 1969, long-term debt consisted of:

	Due within one year	Due after one year
Notes:		
6% Series A, C, D, E and installment notes maturing 1970-1982	$231,000	$ 2,658,000
6½% Series F maturing 1982	67,000	799,000
First Mortgage Notes:		
5⅞% maturing 1981	29,000	445,000
6% maturing 1969-1973	142,000	1,013,000
6½% maturing 1977	7,000	51,000
6⅝% maturing 1987	60,000	1,866,000
6% convertible subordinated debentures due 1982	—	759,000
5% convertible subordinated debentures due 1993	—	19,951,000
Other	99,000	99,000
	$635,000	$27,641,000

The aggregate annual payments for the four years subsequent to July 31, 1970 are: 1971, $643,000; 1972, $588,000; 1973, $661,000; 1974, $651,000.

Certain capital stock of two subsidiaries and Unimation, Inc., has been pledged to secure certain of Condec's long-term debt. The 6% subordinated debentures are convertible into common stock at $17.25 per share to January 15, 1972, $20.50 per share to January 15, 1977 and $24.63 thereafter to maturity. The 5% subordinated debentures are convertible into common stock at $34.00 per share to July 14, 1993.

During the year, 6% subordinated debentures with a face value of $396,000 and 5% subordinated debentures with a face value of $49,000 were converted into 24,370 shares of common stock.

4. Other liabilities

Condec reached agreement with those owners of Lunkenheimer stock who had requested appraisal rights for payment of their stock. The amount provided for Lunkenheimer stock in excess of asset value has been charged to excess of cost of investment over equity in net assets of subsidiaries at dates of acquisition.

5. Capital stock

A summary of capital stock at July 31 follows:

	Shares			
	1969	1968	1969	1968
Serial preferred stock:				
Authorized	223,750	231,250		
Outstanding:				
6% cumulative preferred stock—par value $10.00:				
Authorized & outstanding	123,750	131,250	$1,238,000	$1,313,000
Second serial preferred stock:				
Authorized	750,000	750,000		
Outstanding:				
Series A 6% cumulative preferred stock—par value $10.00:				
Authorized & outstanding	189,867	189,867	1,899,000	1,899,000
7% cumulative preferred stock—par value $25.00:				
Authorized	202,659	225,000		
Outstanding	161,463	181,099	4,036,000	4,527,000
10¢ cumulative convertible preferred stock—par value $25.00:				
Authorized	140,180	225,000		
Outstanding	98,984	181,099	2,475,000	4,527,000
Common stock—par value 10¢:				
Authorized	3,500,000	3,500,000		
Outstanding	1,824,103	1,647,323	182,000	165,000

The 6% cumulative preferred stock and the Series A cumulative preferred stock may be redeemed by Condec at $10.50 per share prior to September 1, 1970 and December 31, 1970, respectively and thereafter at prices decreasing to $10.00 per share by September 1, 1980 and January 1, 1974, respectively.

The 7% cumulative preferred stock and the 10¢ cumulative convertible preferred stock may be redeemed on or after September 1, 1973 at par plus accumulated and unpaid dividends. Each share of the 10¢ cumulative convertible preferred stock may be converted, at any time, into .523 shares of common stock. During the year 75,568 shares were converted into 39,460 shares of common stock and 9,087 shares were purchased.

Condec is required to provide a sinking fund for the semi-annual redemption of 3,750 shares of the 6% cumulative preferred stock at $10 per share plus accumulated dividends. A sinking fund is required on increasing annual amounts from $100,000 in 1970 to $398,000 in 1993 for the redemption of the 7% cumulative preferred stock. As a result of purchasing 22,176 shares of such stock, sinking fund contributions for the 7% preferred stock are not required until 1974.

At July 31, 1969, 856,340 shares of Condec's common stock were reserved for the following purposes.

	Shares Reserved
Conversion privileges of debentures and preferred stock	682,865
Warrants for 25,000 shares at increasing prices from $7.00 and 76,000 shares at $14.07, expiring 1985 and 1977, respectively. Warrants to purchase 10,000 shares at $2.35 were exercised in October 1968	101,000
Outstanding options granted to key employees, including officers, at prices ranging from $4.75 to $37.63 per share, of which 23,425 shares were exercisable at July 31, 1969	40,775
Available for future options to key employees, including officers	31,700
	856,340

During the year no employee stock options were granted; options on 2,950 shares were exercised at $4.00 to $16.00 per share; options on 1,475 shares were cancelled. At July 31, 1968, options

to purchase 45,200 shares were outstanding and 30,225 shares were reserved for future stock options.

At July 31, 1969, employee stock options, assumed in connection with the Lunkenheimer merger, for the purchase of 579 units (3,349 a year earlier) were outstanding at $27.60 per unit. Each unit consists of one share of 7% cumulative preferred stock and one share of 10¢ cumulative convertible preferred stock. During the year, options to purchase 2,585 units were exercised at prices ranging from $18.41 to $26.70 per unit. Options to purchase 185 units were cancelled during the year.

6. Working capital and dividend restrictions

Under the most restrictive provisions of Condec's present loan agreements, consolidated working capital may not be less than $15,000,000. Retained earnings of $11,722,000 were not available for the payment of cash dividends on or purchase of stock other than the 6% cumulative preferred stock.

7. Property, plant and equipment

Property, plant and equipment consists of the following:

	Years ended July 31	
	1969	1968
Land, buildings and improvements..	$ 8,216,000	$ 8,063,000
Machinery and equipment	15,133,000	12,472,000
Other	1,979,000	1,507,000
	$25,328,000	$22,042,000

Condec adopted the straight-line method of depreciation for property used principally in non-military operations, effective August 1, 1968. The effect of this change is not material.

Depreciation on other property is computed generally on accelerated methods.

8. Pension plans

Condec has contributory and non-contributory trusteed pension plans covering substantially all employees in Lunkenheimer and, in other operations, those employees not covered by collective bargaining agreements. Condec's policy is to fund pension costs accrued. The cost of these plans, including past service costs, charged to income was $286,000. The unfunded past service cost is being amortized over periods of thirty and forty years.

9. Earnings per share

The computation of primary earnings per common share has been calculated on the basis of the weighted average number of shares of common stock outstanding during the year and reflects the treatment of the 10¢ cumulative convertible preferred stock as a common stock equivalent.

The computation of fully diluted earnings per common share assumes the conversion of debentures and preferred stock with elimination of related interest and dividends, and exercise of warrants and stock options outstanding, with the use of the proceeds to purchase outstanding common shares.

10. Commitments and contingencies

Under the terms of agreement entered into with Tubotron, Inc. and substantially all of its shareholders, Condec has the option to purchase substantially all of the common shares of Tubotron and $1,500,000 of convertible preferred shares. As of July 31, 1969, Condec has acquired $536,000 of Tubotron stock. Further purchases of preferred and common stock are conditioned on Tubotron's subsequent earnings.

Minimum annual rentals aggregate approximately $484,000 under long-term leases expiring from 1971 to 1979. Condec is also obligated to pay real property taxes, insurance, etc. on certain of these properties.

ACCOUNTANTS' REPORT

The Board of Directors and Stockholders,
Condec Corporation

We have examined the accompanying consolidated balance sheet of Condec Corporation at July 31, 1969, the related consolidated statements of income and retained earnings and capital surplus and the consolidated statement of source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. It was not practicable to confirm amounts due from the U.S. government, as to which we satisfied ourselves by means of other auditing procedures.

In our opinion, the statements mentioned above present fairly the consolidated financial position of Condec Corporation at July 31, 1969, the consolidated results of their operations and the source and application of their consolidated funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

ARTHUR YOUNG & COMPANY

New Haven, Conn., September 19, 1969

CONDEC CORPORATION

Operating Divisions and Subsidiaries

Consolidated Diesel Electric Company
Old Greenwich, Connecticut
Schenectady, New York
Scotia, New York
Stockton, California
Charlotte, North Carolina

Consolidated Avionics
Westbury, New York

Consolidated Controls Corporation
Bethel, Connecticut
El Segundo, California

Hammond Valve Corporation
Hammond, Indiana

The Lima Electric Motor Co., Inc.
Lima, Ohio

The Lunkenheimer Company
Cincinnati, Ohio

NJE Corporation
Kenilworth, New Jersey

Varifab, Inc.
High Falls, New York

Executive Office:

Boston Post Road
Old Greenwich, Connecticut 06870
(203) 637-4511

Transfer Agent—Common Stock

The Chase Manhattan Bank
One Chase Manhattan Plaza
New York, New York 10015

Annual Meeting

Day: November 19, 1969
Time: 12 Noon
Place: Warwick Hotel
65 West 54th Street
New York, New York

Directors

Milton S. Cohn
Jerome I. Davis
Joseph F. Engelberger
Mortimer Feuer
Dr. Milton F. Meissner
Gerald Rosenberg
Norman Schafler

Officers

Norman Schafler
President

Gerald Rosenberg
Vice President

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Vice President

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Vice President

Maj. Gen. Lucas V. Beau, USAF Ret.
Vice President

Charles H. Rodgers
Vice President, Secretary & Treasurer

Herbert Gladstone
Vice President and Controller

Harvey Frank
Assistant Secretary

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